

Internal Revenue Service

District
Director

Department of the Treasury

230 South Dearborn Street
Chicago, Illinois 60604

Employer Identification Number:

Person to Contact:

Telephone Number:

Refer Reply to:

CERTIFIED

Date: APR 7 1993

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax under Section 501(c)(7) of the Internal Revenue Code.

The information submitted discloses that you were incorporated on [REDACTED] under the nonprofit corporation laws of the State of [REDACTED]

Your organization's purposes are to advance communication, civic benefit and good fellowship among [REDACTED]; and to preserve the finer aspects of [REDACTED] heritage.

The activities of your organization include the operation of a food booth at the local [REDACTED] Festival, cooking a spaghetti feed for members and their guests, and taking member only club trips to enhance the fellowship amongst the members.

According to the financial data submitted, a substantial amount of your income is derived from your food sales at the [REDACTED] Festival. The festival is open to the general public. In describing your festival activity, you stated it is impractical to keep records on the member and guest versus nonmembers revenues and that it is almost impossible to segregate the sales. Your financial data indicates more than 15% of your gross receipts are derived from nonmembers at the festival.

Section 501(c)(7) of the Code provides for exemption from Federal income tax of clubs organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, no part of the net earnings of which inures to the benefit of any private shareholder.

Section 1.501(c)(7)-1(a) of the Income Tax Regulations provides that Section 501(c)(7) of the Code applies only to clubs which are organized and operated exclusively for pleasure, recreation and other nonprofitable purposes, but does not apply to any club if any part of its net earnings inures to the

benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues and assessments.

Public law 94-568 (Senate Report 94-1318, 2d Session, 1976-2 C.B. 597, 599) states that social clubs may receive up to 35 percent of their gross receipts, including investment income, from sources outside their membership without losing their exempt status. Within the 35 percent limitation, no more than 15 percent of gross receipts may be derived from nonmembers use of club facilities and/or services.

Since the general public is invited to your social and recreational events and your receipts therefrom are a substantial part of your total income, it is evident that you are not operating as a social club within the intentment of Section 501(c)(7) of the Code.

Accordingly, we hold that you are not entitled to exemption from Federal income tax as an organization described in Section 501(c)(7) of the Code. Accordingly, you are required to file Federal income tax returns on Form 1120.

If you do not agree with these conclusions, you may within 30 days from the date of this letter, file a brief of the facts, law and arguments (in duplicate) which clearly sets forth your position. In the event you desire an oral discussion of the issues, you should so indicate in your submission. A conference will be arranged in the Regional Office after we have had an opportunity to consider the brief and it appears that the conclusions reached are still unfavorable to you. Any submission must be signed by one of your principal officers. If the matter is to be handled by a representative, the Conference and Practice Requirements regarding the filing of a power of attorney and evidence of enrollment to practice must be met. We have enclosed Publication 892, Exempt Organization Appeal Procedures for Adverse Determinations, which explains in detail your rights and procedures.

If you do not protest this determination in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Internal Revenue Code provides in part that "A declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Court of Claims, or the District Court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service".

Please keep this determination letter in your permanent records.

If you agree with this determination, please sign and return the enclosed Form 6018.

Sincerely yours,

District Director

Enclosures:
Publication 892
Form 6018